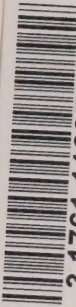


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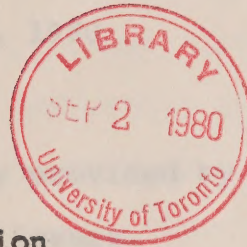
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national farmers union

In Union is Strength



Submission

to the

Honorable Jean-Luc Pepin

Minister of Transport

Presented in

Ottawa, Ontario

August 19, 1980

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Introduction

1. We appreciate the opportunity provided by this meeting to discuss transportation and related issues.
2. The National Farmers Union is an organization of farm families who share a deep interest in policy issues related to their farming operations. While policy discussions occur throughout the year our National Convention annually establishes the policy for the organization.
3. Within the past few years the question of transportation has claimed a great deal of our time and attention. Our organization was actively involved in the presentation of submissions on three separate occasions to the Grain Handling and Transportation Commission chaired by former Supreme Court Justice Honorable Emmett Hall.
4. We also devoted three presentations and a considerable amount of time in advancing our point of view to the Snavely Commission charged with determining the cost of moving grain by rail on behalf of the Hall Commission.
5. In order to gain a perspective of current transportation and related issues, it is important to do so within the content of some basic historic facts related to the building of Canada as a nation and the role ~~the~~ railways assumed in achieving this task as instruments of national policy.

Historical Sketch of Farmer Protest

6. The construction of the Canadian Pacific Railway into Western Canada followed the passage of legislation in 1881. Its construction, in reality, was a joint achievement of the Canadian Pacific Railway Company and the Canadian government. The extensive assistance given to the Company included \$25 million and 25 million acres of agricultural land "fairly fit for settlement"; land for right of way, sidings and structures; substantial exemptions from taxes and duties; and a twenty year guarantee against certain competitive construction in the West. (The monopoly clause was cancelled in 1888 by agreement between the company and the government, the government guaranteeing the interest on a bond issue of the Company to the amount of \$15 million in consideration of the cancellation.)
7. Even after the cancellation of the CPR's monopoly privileges in rail line construction and rate setting it retained a strong measure of monopoly within the area near its lines and shipping points.
8. The involvement of the organized farm movement in Western Canada relating to grain handling and transportation issues commenced around the turn of the century and was the beginning of an era punctuated by several commissions of inquiry into various stages and aspects of development including the Commissions of 1899, 1906, 1923, 1931 and 1936.
9. Other areas of agrarian protest focused on the inadequacy and injustice of the inspection and grading of Western grain as carried on under existing legislation which also became the subject for study of a Royal Commission.
10. About the Commissions of 1899 and 1906, Dr. V.C. Fowke* observes:

* The National Policy and the Wheat Economy, University of Toronto Press, 1957.

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Other areas of agrarian protest focused on the land tenure and injustice of the inspection and grading of Western grain as carried on under existing legislation which also became the subject for study of a Royal Commission.

About the Commission of 1923 and 1936, Dr. V.G. Foster observes:

"the central purpose of the Commissions was, it may be presumed, to hear and evaluate the complex of grain growers complaints concerning grain handling facilities.

"Yet no attempt was made by the government to observe, in the selection of personnel, any of the usual rules concerning a proper representation of the various parties vitally interested in the dispute or of the various geographic areas of the national economy."

11. Further, Fowke observes, the early federal commissions on the grain trade were not regarded as instruments for the impartial evaluation of agrarian protest against the elevator and milling companies and the railways. They were, in short, white wash attempts of the government to diffuse the genuine frustrations and grievances of farmers.

12. The Manitoba Grain Act passed by government in 1900, in addition to providing for the licensing, bonding and supervision of all grain dealers, required the railways to supply cars without discrimination for loading through flat warehouses or elevators or overloading platforms.

13. As well intended as the legislation may have been these provisions could be frustrated unless they were accompanied by the assurance that cars would be provided with complete impartiality for loading through the various agencies.

14. Adequate observance of this legislated requirement was not established until the Sintaluta test case of 1902 wherein the agent of the Canadian Pacific Railway Company at Sintaluta was found guilty of a breach of the relevant section of the Act.

15. The decision was upheld by the Supreme Court of Canada on appeal and the validity of the law was thus made certain. Remaining ambiguities in the car distribution clause were further reduced by a legislated amendment in 1902 which embodied new wording almost identical with that recommended by the Territorial Grain Growers Association.

16. Shortly after the turn of the century, the attention of Western growers was shifted increasingly to the terminal market and to the activities carried on in terminal elevators at the Lakehead, to issues of grading and inspection and the conduct of business in the Winnipeg Grain and Producer Exchange.

17. These activities led eventually to the formation of the Grain Growers Grain Company in 1906 which endeavoured, through co-operative venture, to establish itself to break the monopoly elements which characterized the private trade.

18. A major obstacle to farmer justice at the head of the Lakes was once again the Canadian Pacific Railway Company which, although it did nothing to provide local grain buyers with elevator facilities, did construct and exclusively operate all terminals at Fort William and Port Arthur from 1884 until 1904.

19. Although other private companies developed terminals at the Lakehead after 1904, investigations of a Royal Commission and independent investigations conducted by the Manitoba Grain Growers Association late in 1909 confirmed the long-standing allegations that terminal elevator operators mixed and undercleaned the grain which they handled.

20. They called for the construction of grain terminals of federal government ownership. This request was made repeatedly to Sir Wilfred Laurier on his Western tour of 1910 and in December of that year, 500 Western grain growers and 300 Eastern Grangers descended on Ottawa repeating the demand for federal operation of terminals.

21. While the federal government did not totally comply with the wishes of producers it did consolidate the grain inspection and Manitoba Grain Act and established the Board of Grain Commissioners.

22. A government terminal was built at Port Arthur in 1913 under the operation of the Board of Grain Commissioners and other interior

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terminal elevators were constructed at Moose Jaw, Calgary, Saskatoon in 1913-14 and ten years later another was built in Edmonton. In 1925, the government terminal was constructed at Prince Rupert and the Churchill terminal followed in 1931.

23. Wheat growers continued to urge the abolition of the Grain Exchange and the open market. Although these requests were ignored by a Royal Commission of 1923-25 and by the Stamp Commission in 1931, farmers were not reassured with a conclusion which stated, in part,

"futures trading even with its disadvantages of numerous minor price fluctuations is of distinct benefit to the producer in a price which he receives."

24. Thus, when Justice Turgeon investigated the Canadian grain trade in the years 1936-38 the demands for the abolition of the futures market continued unabated.

25. He is quoted,

"the demand before me for the abolition of futures trading in Canada was always accompanied by a further demand for the creation by the government of a permanent National Wheat Board whose duty it would be to take over the whole of our wheat crop each year and to market it both at home and abroad."

26. The Canadian Wheat Board had been established by legislation in 1935 and was in operation on the basis of voluntary patronage.

27. While Turgeon rejected the Wheat Board as a long run possibility because of the dangers of "political interference and the hostility of the private trade at home and abroad," conditions in 1938 did not recommend its immediate dissolution.

28. In spite of occasional political interference and continual and repeated attacks against it by open marketers and international grain merchants that continue to this day, the Board continues, by popular support of farmers, to serve their best interest and national interests as well.

29. In sketching this brief background of some of the historic developments that characterized the nature and evolution of the prairie grain handling and transportation system in Western Canada we've attempted to illustrate in part that:

1. The direction of national policy in the settlement and development of the West was initially accompanied by monopoly privileges granted the private sector in transportation and the grain trade.
2. Economic abuse and exploitation of the inhabitants in the newly settled region characterized the behaviour of the Canadian Pacific Railway Company and the private grain trade which held vast power over them.
3. Agrarian protest, because of the widespread exploitation, was directed toward encouraging government legislation, regulation and direct involvement in the commerce of the grain trade.
4. Government response in many instances was characterized by reaction through the appointment of various commissions of inquiry which at times resulted in continuing protection of the status-quo within the private business community.
Inevitably some needed changes were granted, although grudgingly, by government, which was forced to respond to organized farm pressure and become more directly involved in legislation, regulation and control to offset the abuse of power exercised against farmers by the various vested interest groups of the time.
5. The beneficial changes that evolved because of organized farmer struggles over the years included:
 - a) The grain grading and inspection regulations of the present day Canadian Grain Commission,

b) Monopoly privileges in railroad construction in the West and rate setting on grain enjoyed by the Canadian Pacific Railway Company ended with the passage of the Crows Nest Pass Rate Agreement in 1897. The statutory rates on many settlers effects and grain that accompanied the original agreement was suspended for a time during World War I and reinstated by federal statute for grain in 1925 at which time statutory rates were also applied to grain moving on the Canadian National Railway system.

c) The lakehead grain terminal monopoly held by the CPR since 1884 was ended in 1904 and limited public involvement in the ownership and operation of terminals commenced soon after.

d) The establishment of the Canadian Wheat Board in 1935 on a voluntary basis became, in 1943, a compulsory marketing agency for wheat and in 1949 its powers of marketing were extended to oats and barley.

6. The development of the railway system in Canada was made possible only because rail transportation was regarded as essential to the objectives of national policy and regional development because the rapid settlement and development of the agricultural area in the West was essential in creating this nation as we now know it.

30. It must be observed that although a number of changes have occurred since the turn of the century in grain handling and transportation policy in response to popular pressure, the permanence of gains and improvements implimented are not assured for the future.

31. The Canadian Wheat Board, for example, remains under continuous threat as a marketing agency.

32. The government has rid itself of its inland terminal facilities, which seldom, since their construction, have been operated to full potential - no doubt out of commitment to not compete against private investors.

33. The railway companies, led by the CPR, continue to attack the provisions of the statutory rates on grain and seek further widespread abandonment of prairie branch rail lines.

34. Against this background of events, we now address ourselves to current issues at hand.

The Hall Report

35. The most recent commission to study grain handling and transportation was chaired by Justice Emmett Hall. The commission conducted extensive community hearings and carefully considered the social as well as the economic implications associated with possible abandonment of prairie branch rail lines.

36. The commission had been assigned a total of 6,299.3 miles of prairie branch line for evaluation and recommendation for retention or abandonment. When it filed its report on April 18, 1977 after more than two years of study, it recommended that 1,812 miles be added to the basic network; that 2,165.5 miles be abandoned over a period of five years and that 2,343.6 miles (including 22.4 miles of new construction) be placed under the jurisdiction of a new Prairie Rail Authority for continuing assessment to the year 1990.

37. Instead of seriously examining this comprehensive study, the federal government has systematically sabotaged the spirit of the report.

38. In response to the P.R.A. proposal, the government of Canada on May 27, 1977, with undue haste, announced that it was creating a Prairie Rail Action Committee whose main task would be to "remove

doubt" over the future of these lines in a much shorter period.

39. It claimed this action was prompted by reaction to the PRA concept from elevator companies and the railways who according to the then transport minister, Mr. Lang, were "reluctant to commit capital to such lines".

40. The conclusions of the PRAC study were that 1,416.1 miles of the rail branch line (in addition to 2,165.5 miles of branch line recommended for abandonment by the Hall Commission) should be abandoned by 1982. The remaining 927.5 miles would be protected until the year 2000.

41. The subsequent defeat of the government resulted in the PRAC recommendations being pigeonholed and a new study ordered. That study undertaken by Progressive Conservative member of parliament Doug Neil remains unpublished and the property of the party of which he is a member.

42. With the return of the Liberal government to power, the question arises whether the recommendations of the PRAC report are to be reactivated.

43. Farmers are the people most affected by branch rail line abandonment. We strongly resented the high-handed and superficial way in which the PRAC approached the very real economic social problems of the farm community. Their recommendations for abandonment, if accepted would have caused much hardship in the prairie region.

44. As an organization we have always accepted the fact that the prairie branch rail line system was in need of rehabilitation and rationalization.

45. We have never staked out a strict retentionist position. We expressed general "package" support for the findings of the Grain Handling and Transportation Commission.

46. This level of abandonment, with few exceptions, was we felt, as great a disruption to the existing rail line system as could reasonably be endured by the rural community.

47. Branch rail lines have for a number of years almost exclusively served the grain trade. Increase in farm size and in the volume of grain produced has also increased the traffic on various branch lines.

48. This was verified by the comparison of five year average grain receipts to ten year average receipts of the forty lines recommended for abandonment by the PRAC. Five year average receipts were higher on 32 of the lines compared to ten year averages, indicating that farmers had not abandoned the rail lines in question.

49. In summary we submit your government should not resurrect the PRAC report as a feasible solution to the future status of the branch rail lines which PRAC undertook to study.

50. If the government is unwilling to establish a Prairie Rail Authority to manage these rail lines, the railways should be forced to service and the future of the lines should be re-examined after 1990. This suggestion is based on the premise that Justice Hall placed these lines in the "limbo" category because many of the grain handling facilities on the lines studied by the PRAC were of sufficiently high standard to serve the grain gathering system for some time.

51. Retention of the Crow rate to the movement of export grain is a second major recommendation of the Hall report on which your government has not expressed positive support.

52. Indeed, to the contrary, statements made by you as Minister both within and outside the House of Commons and in reply to responses made before the Transport Committee reflect a strong bias toward ending these rates. This is a matter of considerable concern to thousands of farmers.

53. The importance of retaining the Crow rates cannot be over emphasized. The rates have made it possible for prairie farmers to remain competitive in world grain markets with a minimum of federal support for export grain, an important factor when 80 percent of our grain is available for export.

54. Grain exports have been particularly important to enhancing our federal balance of payments and the Crow rates have enabled many hundreds of millions of dollars in purchasing power to remain within the farm community to stimulate the local, prairie and Canadian economy.

55. The importance of retaining as much purchasing power in the hands of prairie grain producers becomes particularly relevant in a year such as we are now experiencing. Extensive areas of drought will reduce crop yields from a normal 35 million tonnes of grain production to an estimated 22 million tonnes. The subsequent loss in income still to follow has already had a serious effect on the farm machinery industry in central Canada where lay-offs have been extensive. Farm implement sales in much of the prairie region are reported to be down by as much as 60 percent and the effect on other farm supply and service industries will also be substantial. In present circumstances, the ability of farmers to be able to maximize their economic returns from grain sales is particularly necessary.

56. It must be observed that the initial thrust of national policy in the development of transportation was based on an agricultural strategy.

57. The directives of current federal attitudes toward changing the statutory rate are clearly directed towards encouraging industrialization at farmer expense.

58. The immediate impact of a change to the statutory rate would be to depress the farm value of grain to the producer only, including grain consumed within the domestic feed grain market as well as export grain.

59. The strategy of the railway companies in pressing for the end to the Crow rates is directed toward implimentation of a variable or negotiable rate structure.

60. Thus, by economic determinism, the railway companies would be in a position to strongly influence where the major gathering points in for grain/the prairies should be located. The farm community would be forced to adjust and assume the major burden of cost. The prime benefactors would be the railways and the industrial sector.

61. The railroads claim that the increase in export grain rates to compensatory levels should return to them an additional \$200-\$250 million annually. This amount can be expected to annually accelerate at or above the rate of inflation.

62. The loss to the farm community of \$250 million in annual purchasing power translates into a loss of over \$1 billion when the multiplier effect of farm purchasing power is taken into consideration.

63. The Crow rates have protected grain farmers from the annual prospect of rising freight costs on export grain, unlike grain moving by rail within the domestic market where rates from Thunder Bay to Eastern Canadian destinations have increased between 65.3% to 82.6% during the five year period 1975-1980.

Domestic Feed Grain Freight Rates

<u>Ex Thunder Bay</u>		Freight Rates Effective June 1/80 (metric tonne)		Rates Per Cwt.
<u>TO:</u>	<u>Miles</u>			
Port Williams, N.S.	1709	\$35.71		\$1.62
Truro, N.S.	1631	32.62		1.48
Moncton, N.S.	1507	35.27		1.60
Sussex, N.B.	1549	35.93		1.63
Charlottetown, P.E.I.	1633	37.70		1.71
Chicoutimi, Quebec	1079	27.33		1.24
St-Jerome	988	25.35		1.15
Sherbrooke	1088	26.23		1.19
Ottawa	875	22.49		1.02
Owen Sound	931	22.49		1.02
Woodstock, Ont.	890	22.49		1.02

Source: Canadian Livestock Feed Board

64. Still, the railway companies have not committed adequate rolling stock for movement of domestic grain. The CNR has 310 hopper cars available for domestic grain movement and the CPR only 80!

65. The Canadian Livestock Feed Board in its 1978-79 annual report states that the railway companies were asked what rates they would require to justify the investment in hopper cars or new box-cars, or what mileage allowance they were prepared to offer the trade on privately leased cars. No reply was received, but subsequent information received from the C.L.F.B. indicates the railway companies cancelled the .8¢ per cwt. allowance on privately leased cars because no one was taking advantage of it since it is so ridiculously low it renders the option of leasing totally impractical.

66. We have no reason to believe that the railways would seek any less in freight rates on export grains to either the West Coast or Thunder Bay than now prevail on domestic grain movement. In addition, the application of energy surcharges, as now apply to domestic grain movement and other forms of indirect charges can be expected. Consequently, we reject the concept of "Crow benefit"

proposals which we regard as simply an interim measure to the eventual transfer of total cost upon producers.

67. In their effort to break the rates the railway companies have employed blackmail, coercion, and intimidation and have repeatedly violated Section 262 of the Railway Act by discriminating against farmers in the movement of grain. The latest example of bare-faced intimidation concerns the threat of the CPR to not complete its tunnel in the Rogers Pass unless the Crow rates are ended.

68. As an organization we have challenged the right of the railway companies to violate the Railway Act with impunity and have launched a Class Action for \$690 million against them.

69. We submit the railway companies are well compensated for the movement of grain. Hundreds of millions of dollars of public funds have been expended or are committed for future expenditures for branch line subsidies, rehabilitation costs and rolling stock.

70. If grain rates were to be sufficient to generate sufficient revenues for the railway companies to cover the value of 14,000 grain hopper cars purchased or leased by federal and provincial governments and the C.W.B. or the 5,000 boxcars repairs on a fifty-fifty cost sharing basis, branch line subsidies or rehabilitation subsidies, farmers would have been required to pay billions of dollars in additional freight charges.

71. Would the railway companies, on their own, have made these investments? We doubt it. In view of the state of depreciation and low investment they have committed to the railway system in general, they cannot be trusted to reinvest additional earnings into providing an essential service when profit opportunities elsewhere are more rewarding.

72. In our view, the basic issue is not one of providing the railway companies with compensatory rates as the solution to their

financial needs. This has not been the experience in the United States where compensatory grain freight rates have not prevented U.S. rail lines from declaring bankruptcy with increasing regularity.

73. In a nation as vast and sparse as Canada transportation is absolutely essential and will continue to be a subsidized industry.

74. Federal budget estimates for transportation in fiscal year 1979-80 were nearly \$2.2 billion including \$591.6 million for air, \$517.2 million for water, \$751 million for rail, and \$169.2 million for road.

75. A "user-pay" concept applied to the movement of grain simply is not practical in a situation where prices received for grain by farmers are highly vulnerable to the vagaries of the international market. Removal of Crow rates will not solve the problem of public funding for the railway companies.

76. We fully understand the argument advanced by those who suggest that the development of the secondary production and processing industry is handicapped by the existence of the statutory rates.

77. The extension of statutory equivalent rates for processed products moving from the Canadian Wheat Board area, as recommended by Justice Hall, would be highly preferable to the elimination of statutory rates on all grain and much less costly in the long run.

78. We wish to caution however that the creation of competitive rates between raw and processed products does not necessarily guarantee that growing export markets for processed products will automatically follow.

79. Flour is now a processed product which moves into export position at the statutory rate, however Canada's exports of milled flour are but a fraction of their former levels in spite of the comparable advantage of freight rates.

80. Because other nations have developed their own industrial strategies, they prefer to import the raw product for processing at home.

81. Consideration must also be given to the long-run implications of allowing railways to increase their grain hauling rates to compensatory levels, thereby providing an umbrella for the expansion of the road trucking industry. Such a development simply represents the transfer of cost from one sector of the economy to another.

82. As you know, it has been documented that rail movement of heavy freight is from 4-6 times more energy efficient than trucking. In a climate of energy conservation the encouragement of more trucking flies in the teeth of economic reason.

83. Consequently we submit the ending of the farmers historic rights to statutory rates on export grain would not result in a lesser demand on the part of the railway companies for public assistance. We regard the issue of the Crow rate as non-negotiable.

84. If the railway companies are truly to serve the national economic interest as instruments of regional development and national policy they must be integrated and operated as public utilities. We urge your government immediately act upon this recommendation.

West Coast Facilities

85. We are pleased that an agreement between the National Harbour Board and the prairie grain company consortium on the construction of a \$175 million grain terminal at Prince Rupert has now been reached.

86. The importance of an alternate shipping port to Vancouver was graphically illustrated this year with the loss to rail service for 4 1/2 months of the Second Narrows bridge.

87. We regard as vastly overdue the upgrading of railway access to Vancouver grain terminal facilities and urge that an undertaking for

improvements to the railway delivery system be initiated.

88. We once again urge the construction of the Clinton to Ashcroft link between CN Rail and B.C. Rail to provide an alternative to the Fraser Canyon route to Vancouver.

Maritime Transportation

89. We draw to your attention the deteriorating state of the rail transportation system available to Maritime potato growers.

90. While rail freight rates have been continually increasing and rolling stock depreciating, increasing reliability on truck transport has been necessitated.

91. We recommend a Royal Commission of Inquiry be established to study rates and requirements of rail transportation for the Maritime region with specific regard for their effect on primary production, and regional, economic and social development. An upgrading of the road and rail system within the Maritime provinces and the ferry link between P.E.I. and the mainland is needed. Rail cars to move perishable products are badly required. Investigation and action needs to be taken to resolve the railways' failure to provide adequate transport for fruits and vegetables.

Other Matters

92. We are concerned over the unjustified lease rental rates imposed by Marathon Realty on elevator sites located on CPR branch lines. We request federal government investigation and intervention.

93. We recommend the construction of an Arctic rail line as an alternative to the proposed Mackenzie Valley and Alcan pipelines for the transportation of petroleum products.

94. We request the Department of Transport require all railway rolling stock be marked with highly reflective material to protect motorists when approaching railway crossings at night.

All of which is respectfully submitted by

THE NATIONAL FARMERS UNION.

